

Loan shopping can often get complicated because of all the different loan products out there. One simple way to start is to compare 30 year fixed rates with different lenders. This should give you a general idea about the competitiveness of any given lender. However, some lenders may have better adjustable rate programs and not be as competitive in fixed rates. In addition, banks change their lending policies frequently, one bank may be good one year and less so the next. In addition, things can vary quite a bit by how strong a borrower you are. If your credit is less than good you may not be eligible for the best rates. Rates can also vary with the amount of the loan.

You can work with a mortgage broker, a mortgage banker or directly with a loan officer at a bank or savings and loan. Most internet lenders are mortgage brokers. Mortgage brokers have the advantage of being able to take your loan to many different banks or saving and loans. They deal with the "wholesale" department there and get the loans at a lower cost than you can by walking in the front door to the "retail department". If you are dealing with a good ethical broker, they will charge you approximately the difference between "wholesale" and "retail", so you should not pay any more than if you went to the bank directly, maybe even less. On the other hand, some banks have products only available through loans made directly through the banks own loan officers. You can go crazy shopping with dozens of lenders. If you find good ones, checking with at least three for comparison shopping should be good enough.

When you shop you need to call all the lenders the same day because interest rates can change daily. Ask the following questions:

1. What is today's rate for a 30 year fixed rate mortgage?
2. What is the rate with:
 - 1 point?
 - 2 points?
 - 0 points?

A point is a fee that equals 1% of the loan amount. It's also known as a discount point because if you pay it up front the interest rate is discounted to a lower rate. Not all lenders offer the same amount of discount. Whether it is better to pay points and have a lower rate or pay no points and have a higher rate depends on how long you plan to have the loan. You can calculate how long it takes to break even by dividing the amount of money saved in the monthly payment by the amount of the points and that tells you how many months it will take to break even.

The following is an example only to show how this works and does not represent an actual loan:

A 30 year loan of \$100,000 at 8% with no points has a monthly payment of \$733.77
if paying 1 point (1%) reduced the rate to 7.75% the payment would be \$716.41
Savings per month: $\$733.77 - \$716.41 = \$17.35$
1 point = \$1,000

$\$1,000 / 17.35 \text{ per month savings} = 57.6 \text{ months to break even}$

In this example, after about five years you would be ahead paying points but in less than five years if you refinanced or sold you would have been better paying no points.

You do not need to decide on a loan at this point and you may select an adjustable or a 15-year loan or some other loan. Price shopping those is more complicated. When you get closer to choosing a loan I would be glad to help you sort it out with whichever lender you select.

3. What is the total of all other lender fees not including title and escrow?

Title and escrow fees are charged by the title company separately from the bank. Therefore those fees will be the same regardless of which lender you select and it's better not to use the lender estimate of those fees.

Lender fees include things like appraisal, credit, document preparation, tax service and other fees. Different lenders sometimes use different terms for these fees and they all have them more or less. For comparison purposes the total is easiest to use.

With the above three figures you should be able to compare costs.

The other thing is to find out the maximum you can qualify for. Finally, once you select a lender then have them immediately start the approval process so you can get a pre-approval letter. This should only take less than a week. This is very important in a sellers market, so that if you are competing against other buyers you will have an advantage.